

**L'ANSE AREA SCHOOLS**  
**L'ANSE, MICHIGAN**

**FINANCIAL STATEMENTS**  
**WITH SUPPLEMENTAL FINANCIAL INFORMATION**

**June 30, 2006**

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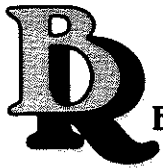
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### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
L'Anse Area Schools  
L'Anse, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of L'Anse Area Schools as of and for the year then ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of L'Anse Area Schools's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of L'Anse Area Schools as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2006 on our consideration of L'Anse Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 33, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise L'Anse Area Schools' basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplemental Financial Information listed in the table of contents and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for the purposes of additional analysis and are not a required part of the financial statements of the L'Anse Area Schools. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

October 6, 2006

**L'Anse Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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This section of L'Anse Area Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

**Financial Highlights**

The L'Anse Area Schools realized a drastic unexpected increase in pupils for the fall of the 2005-2006 school year. The increase of pupils from the anticipated blended count of 814.23 to 833.16 blended full-time equivalent created an increase in State Foundation revenue for the district. This increase enabled the district to revise its budget with a more favorable outcome for the school district.

The district continues to purchase computers and servers to maintain its aging technology infrastructure. Additionally the district purchased a school bus without financing.

During the 2005-2006 fiscal year the L'Anse Area Schools Board of Education approved refunding of the 1998 bonds. The lengthy process included the purchasing of bonds to be placed in escrow to allow the district to make complete payment of the 1998 bonds when they become callable in 2008. The process provided the taxpayers of the L'Anse Area Schools not only a reduction of the current levy for debt retirement but also a savings of \$377,032 over the life of the bonds.

**Overview of the Financial Statements**

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

*Statement of Net Assets and the Statement of Activities*

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Overview of the Financial Statements - Continued**

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, Capital Project Fund, School Food Service, Community Services and Athletics funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Retirement Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General, Debt Service, Capital Projects, School Food Service, Community Services and Athletic Funds.

**L'Anse Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**Summary of Net Assets**

|  | 2006                | 2005                |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| Current and other assets                                 | \$ 2,282,800        | \$ 2,197,940        |
| Restricted cash and investments                          | 8,191,883           | 402,464             |
| Capital assets - Net of accumulated depreciation         | 7,739,024           | 7,959,696           |
| <b>Total Assets</b>                                      | <b>\$18,213,707</b> | <b>\$10,560,100</b> |
| <b>Liabilities</b>                                       |                     |                     |
| Current liabilities                                      | \$ 2,022,981        | \$ 1,985,872        |
| Long-term liabilities                                    | 16,744,627          | 9,290,143           |
| <b>Total Liabilities</b>                                 | <b>18,767,608</b>   | <b>11,276,015</b>   |
| <b>Net Assets</b>  |                     |                     |
| Invested in property and equipment - net of related debt | (8,699,231)         | (972,256)           |
| Restricted   | 8,201,751           | 407,651             |
| Unrestricted   | (56,421)            | (151,310)           |
| <b>Total net assets</b>                                  | <b>(553,901)</b>    | <b>(715,915)</b>    |
| <b>Total Liabilities and Net Assets</b>                  | <b>\$18,213,707</b> | <b>\$10,560,100</b> |

**Results of Operations in Governmental Activities**

|                                   | 2006                | 2005                |
|-----------------------------------|---------------------|---------------------|
| <b>Program Revenue:</b>           |                     |                     |
| Charges for services              | \$ 134,790          | \$ 141,659          |
| Grants and contributions          | 1,103,442           | 1,154,465           |
| <b>General Revenue:</b>           |                     |                     |
| Property taxes                    | 1,708,440           | 1,585,489           |
| State foundation allowance        | 4,588,176           | 4,388,815           |
| Other                             | 226,098             | (26,012)            |
| <b>Total Revenue</b>              | <b>7,760,946</b>    | <b>7,244,416</b>    |
| <b>Functions/Program Expenses</b> |                     |                     |
| Instruction                       | 4,173,661           | 4,277,879           |
| Support services                  | 2,324,148           | 2,216,798           |
| Capital projects                  | 0                   | 26,351              |
| School food services              | 274,843             | 248,039             |
| Athletics                         | 155,481             | 147,211             |
| Community services                | 103,982             | 99,046              |
| Interest on long-term debt        | 487,531             | 428,241             |
| Other debt                        | 79,286              | 2,660               |
| <b>Total Expenses</b>             | <b>7,598,932</b>    | <b>7,446,225</b>    |
| <b>Change in Net Assets</b>       | <b>162,014</b>      | <b>(201,809)</b>    |
| <b>Net Assets - Beginning</b>     | <b>(715,915)</b>    | <b>(514,106)</b>    |
| <b>Net Assets - Ending</b>        | <b>\$ (553,901)</b> | <b>\$ (715,915)</b> |

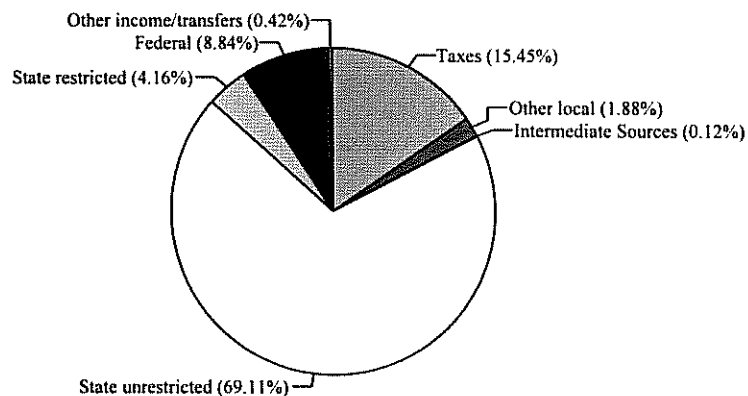


**L'Anse Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2006**

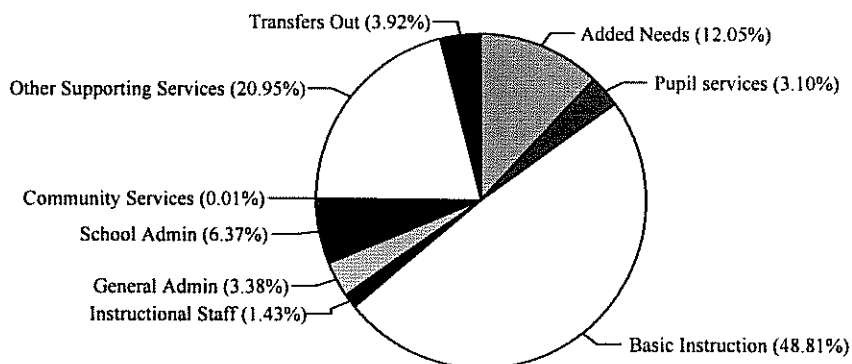
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The following charts highlight the District's General Fund activities:

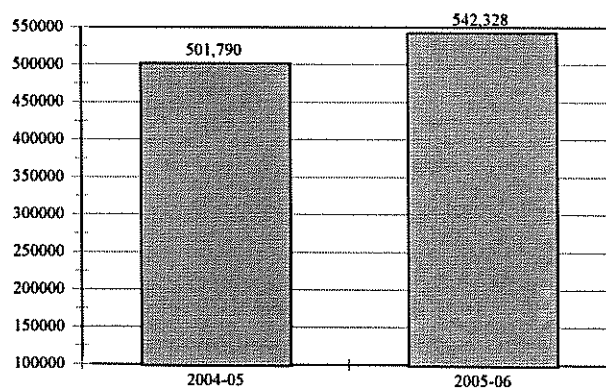
**2005-06 Revenues**



**2005-06 Expenditures**



**Fund Balance Comparison**



**L'Anse Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**Significant Transactions and Changes in Individual Funds**

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

|                           | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
|---------------------------|---------------------|-------------------|---------------|
| General Fund:             |                     |                   |               |
| Revenues/Transfers        | \$ 6,638,876        | \$ 6,426,153      | \$ 212,723    |
| Expenditures/Transfers    | \$ 6,598,338        | \$ 6,556,820      | \$ 41,518     |
| Fund Balance              | \$ 542,328          | \$ 501,790        | \$ 40,538     |
| Debt Retirement Fund:     |                     |                   |               |
| Revenues/Transfers        | \$ 8,614,614        | \$ 736,295        | \$ 7,878,319  |
| Expenditures/Transfers    | \$ 820,514          | \$ 693,253        | \$ 127,261    |
| Fund Balance              | \$ 8,201,751        | \$ 407,651        | \$ 7,794,100  |
| Capital Projects Fund:    |                     |                   |               |
| Revenues/Transfers        | \$ 391              | \$ 477            | \$ (86)       |
| Expenditures/Transfers    | \$ 0                | \$ 26,351         | \$ (26,351)   |
| Fund Balance              | \$ 16,551           | \$ 16,160         | \$ 391        |
| Community Service Fund:   |                     |                   |               |
| Revenues/Transfers        | \$ 107,425          | \$ 103,191        | \$ 4,234      |
| Expenditures/Transfers    | \$ 107,425          | \$ 103,191        | \$ 4,234      |
| Fund Balance              | \$ 0                | \$ 0              | \$ 0          |
| School Food Service Fund: |                     |                   |               |
| Revenues/Transfers        | \$ 289,381          | \$ 262,590        | \$ 26,791     |
| Expenditures/Transfers    | \$ 284,268          | \$ 255,000        | \$ 29,268     |
| Fund Balance              | \$ 82,076           | \$ 76,963         | \$ 5,113      |
| Athletic Fund:            |                     |                   |               |
| Revenues/Transfers        | \$ 150,023          | \$ 141,755        | \$ 8,268      |
| Expenditures/Transfers    | \$ 150,023          | \$ 141,753        | \$ 8,270      |
| Fund Balance              | \$ 0                | \$ 0              | \$ 0          |

General Fund - The main increase in revenue of \$199,361 is related to the increase in state aid. Tax revenue increased in the amount of \$91,000. Expenditure changes include an increase of \$93,541 to instruction costs and a State Aid prior period adjustments of \$49,263.

Debt Service Fund - The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District.

On December 20, 2005 the District issued \$7,760,000 of general obligation unlimited tax refunding bonds to advance refund on the 1998 bonds. The proceeds of the bonds will be used to provide for the payment of the principal of, interest on and redemption premium on the 1996 Building and Site Bonds. The escrow funds are recorded for the refunding of the 1998 bonds, which are shown in the fund balance and revenue/transfer areas.

Capital Projects Fund - The Fund is being used for future capital purchases, e.g. building repairs/improvements, and technology updates. By doing this, when a major capital purchase is needed, all the money does not have to come out of the General Fund at one time.

Community Service: The Community Service fund is used to maintain the Public Library. Funds received from local sources and State sources supplement funds provided by the General Fund.

**L'Anse Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**Significant Transactions and Changes in Individual Funds (Continued)**

School Food Service Fund - The Food Service program for the District has transferred funds to the General Fund to cover utility costs in recent years. The increase in revenues and expenditures is due to the addition of the Fresh Fruit and Vegetable Grant.

Athletic Fund - The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects revenues in the form of gate receipts.

**General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2006, the original budget was adopted on June 20, 2005. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget during the fiscal year.

|                                | Original<br>Budget | Final<br>Budget | Actual       | Variance<br>with final<br>budget | %<br>Variance |
|--------------------------------|--------------------|-----------------|--------------|----------------------------------|---------------|
| Revenues                       | \$ 6,383,580       | \$ 6,606,784    | \$ 6,610,891 | \$ 4,107                         | 0.1%          |
| Expenditures                   |                    |                 |              |                                  |               |
| Instruction                    | \$ 3,978,023       | \$ 4,104,866    | \$ 3,999,224 | \$ 105,642                       | 2.6%          |
| Supporting services            | 2,314,590          | 2,416,130       | 2,314,713    | 101,417                          | 4.4%          |
| Total expenditures             | \$ 6,292,613       | \$ 6,520,996    | \$ 6,313,937 | \$ 207,059                       | 3.3%          |
| Other financing sources (uses) | \$ (183,727)       | \$ (208,456)    | \$ (230,666) | \$ 22,210                        | -9.6%         |

The original revenue budget of \$6,383,580 was increased to \$6,606,784 in anticipation of more state aid foundation monies.

Other financing sources (uses) variances included a prior year state aid adjustment due to taxable valuation changes from Baraga County.

**Capital Assets and Debt Administration**

Capital Assets: The District's net investment in capital assets decreased by \$219,171 during the fiscal year. The additions were a bus, a server, and sidewalk/stair replacements. No debt was issued for these additions. A parcel of land were sold.

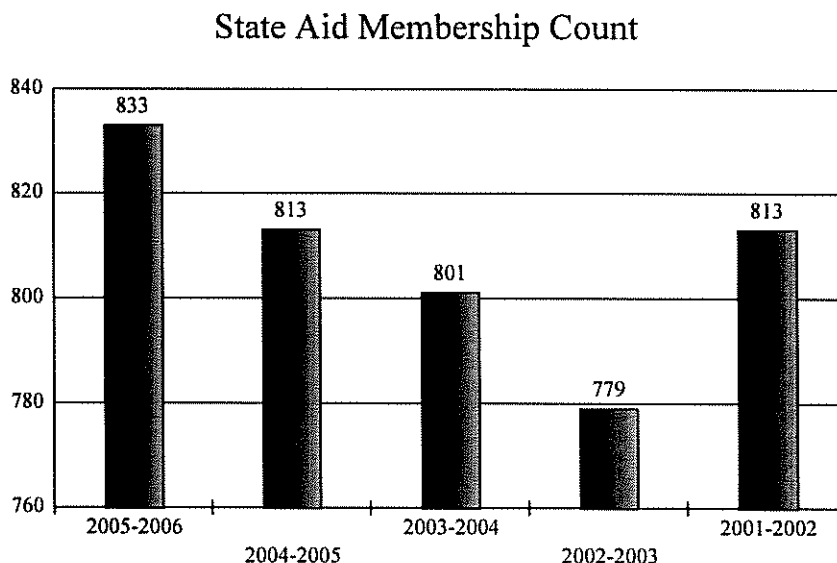
Additional information on the District's capital assets can be found on page 25 of this report.

Long-term Debt: At the end of the current fiscal year, the Districts total debt was \$16,303,918. This total amount is backed by the full faith and credit of the District. The District's total debt increased by \$7,444,873 during the fiscal year due to the refinancing of a bond. The accrued interest was increased by \$61,430.

Additional information on the District's long-term debt can be found starting on page 27 of this report.

**Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations**

The graph depicts 4.4% increase in the number of students enrolled from the previous year, using the State Aid Membership Count



Our elected officials and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act was approved by the State Legislature prior to the beginning of the school year and provides a foundation amount (amount per student) of \$7,085 for the 2006-07 school year, an increase of \$210 per student (3%).

Approximately 72 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, L'Anse Area Schools.

**L'ANSE AREA SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2006**

|   | <u>Program Revenues</u> |                             |   | <u>Governmental Activities</u>                         |
|---|-------------------------|-----------------------------|---|--|
|   | <u>Expenses</u>         | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
| <b><u>FUNCTIONS/PROGRAMS</u></b>              |                         |                             |   |  |
| Government Activities:                        |                         |                             |   |  |
| Instruction and instructional support         | \$ 4,173,661            | \$ 12,147                   | \$ 864,679                                | \$ (3,296,835)   |
| Support services                              | 2,324,148               | -                           | -   | (2,324,148)  |
| School food service                           | 274,843                 | 96,840                      | 191,157                                   | 13,154   |
| Athletics                                     | 155,481                 | 25,244                      | 6,942                                     | (123,295)  |
| Community services                            | 103,982                 | 559                         | 40,664                                    | (62,759)   |
| Interest on long-term debt                    | 487,531                 | -                           | -   | (487,531)  |
| Other debt service                            | 79,286                  | -                           | -   | (79,286)   |
| Total Governmental Activities                 | <u>\$ 7,598,932</u>     | <u>\$ 134,790</u>           | <u>\$ 1,103,442</u>                       | <u>(6,360,700)</u>                                     |
| General Revenues:                             |                         |                             |   |  |
| Taxes   |                         |                             |   |  |
| Property taxes, levied for general operations |                         |                             |   | 1,025,866  |
| Property taxes, levied for debt service       |                         |                             |   | 645,003  |
| Other taxes                                   |                         |                             |   | 37,571   |
| State school aid - unrestricted               |                         |                             |   | 4,588,176  |
| State school aid - Durant                     |                         |                             |   | 43,595   |
| Interest and investment earnings              |                         |                             |   | 106,676  |
| Gain on sale of fixed assets                  |                         |                             |   | 6,500  |
| Other   |                         |                             |   | 41,540   |
| Transfers                                     |                         |                             |   | <u>27,787</u>  |
| Total general revenues and transfers          |                         |                             |   | <u>6,522,714</u>                                       |
| Change in Net Assets                          |                         |                             |   | 162,014  |
| Net Assets - Beginning                        |                         |                             |   | <u>(715,915)</u>                                       |
| Net Assets - Ending                           |                         |                             |   | <u>\$ (553,901)</u>                                    |

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**STATEMENT OF NET ASSETS**  
**June 30, 2006**

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| ASSETS:   |                                    |
| CURRENT ASSETS:                                 |                                    |
| Cash and cash equivalents                       | \$ 398,844                         |
| Investments                                     | 619,481                            |
| Taxes receivable                                | 91,296                             |
| Accounts receivable                             | 14,510                             |
| Inventory                                       | 54,892                             |
| Prepaid expense                                 | 61,683                             |
| Due from other governmental units               | 1,038,094                          |
| Due from scholarship fund                       | 4,000                              |
| TOTAL CURRENT ASSETS                            | <u>2,282,800</u>                   |
| NON-CURRENT ASSETS:                             |                                    |
| Restricted cash                                 | 115,205                            |
| Restricted investment                           | 8,076,678                          |
| Capital assets                                  | 10,032,502                         |
| Less: Accumulated depreciation                  | <u>(2,293,478)</u>                 |
| Net Capital Assets                              | <u>7,739,024</u>                   |
| TOTAL NON-CURRENT ASSETS                        | <u>15,930,907</u>                  |
| TOTAL ASSETS                                    | <u>\$ 18,213,707</u>               |
| LIABILITIES:                                    |                                    |
| CURRENT LIABILITIES:                            |                                    |
| Accounts payable                                | \$ 67,060                          |
| Accrued expenses                                | 450,860                            |
| Accrued interest                                | 134,337                            |
| Deferred revenue                                | 343,896                            |
| Due to other government units                   | 762,768                            |
| Other liabilities                               | 7,393                              |
| Bonds payable within one year                   | <u>256,667</u>                     |
| TOTAL CURRENT LIABILITIES                       | <u>2,022,981</u>                   |
| NON-CURRENT LIABILITIES:                        |                                    |
| Bonds payable, due in more than one year        | 16,047,251                         |
| Compensated absences                            | <u>697,376</u>                     |
| TOTAL NON-CURRENT LIABILITIES                   | <u>16,744,627</u>                  |
| TOTAL LIABILITIES                               | <u>18,767,608</u>                  |
| NET ASSETS:                                     |                                    |
| Invested in capital assets, net of related debt | (8,699,231)                        |
| Restricted for debt service                     | 8,201,751                          |
| Unreserved                                      | <u>(56,421)</u>                    |
| TOTAL NET ASSETS                                | <u>(553,901)</u>                   |
| TOTAL LIABILITIES AND NET ASSETS                | <u>\$ 18,213,707</u>               |

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**June 30, 2006**

|  | General             | Debt<br>Service<br>Fund | Other<br>Non-major<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-------------------------|---|--------------------------------|
| <b>ASSETS:</b>                             |                     |                         |   |                                |
| Cash and cash equivalents                  | \$ 326,137          | \$ -                    | \$ 72,707                                   | \$ 398,844                     |
| Investments                                | 619,481             | 8,076,678               | -   | 8,696,159                      |
| Taxes receivable                           | 58,513              | 32,783                  | -   | 91,296                         |
| Accounts receivable                        | 4,265               | -                       | 10,245                                      | 14,510                         |
| Prepaid expense                            | 61,683              | -                       | -   | 61,683                         |
| Inventory                                  | 52,086              | -                       | 2,806                                       | 54,892                         |
| Due from other governmental units          | 989,577             | -                       | 48,517                                      | 1,038,094                      |
| Due from scholarship fund                  | 4,000               | -                       | -   | 4,000                          |
| Due from other funds                       | 27,285              | 135                     | 8,227                                       | 35,647                         |
| Restricted cash                            | -                   | 115,205                 | -   | 115,205                        |
| <b>TOTAL ASSETS</b>                        | <b>\$ 2,143,027</b> | <b>\$ 8,224,801</b>     | <b>\$ 142,502</b>                           | <b>\$ 10,510,330</b>           |
| <b>LIABILITIES:</b>                        |                     |                         |   |                                |
| Accounts payable                           | \$ 54,275           | \$ -                    | \$ 12,785                                   | \$ 67,060                      |
| Accrued expenses                           | 447,122             | -                       | 3,738                                       | 450,860                        |
| Due to other funds                         | 8,295               | -                       | 27,352                                      | 35,647                         |
| Due to other government units              | 762,768             | -                       | -   | 762,768                        |
| Deferred revenue                           | 320,846             | 23,050                  | -   | 343,896                        |
| Other liabilities                          | 7,393               | -                       | -   | 7,393                          |
| <b>TOTAL LIABILITIES</b>                   | <b>1,600,699</b>    | <b>23,050</b>           | <b>43,875</b>                               | <b>1,667,624</b>               |
| <b>FUND BALANCES:</b>                      |                     |                         |   |                                |
| Reserved                                   | -                   | 8,201,751               | -   | 8,201,751                      |
| Unreserved                                 | 542,328             | -                       | 98,627                                      | 640,955                        |
| <b>TOTAL FUND BALANCES</b>                 | <b>542,328</b>      | <b>8,201,751</b>        | <b>98,627</b>                               | <b>8,842,706</b>               |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 2,143,027</b> | <b>\$ 8,224,801</b>     | <b>\$ 142,502</b>                           |                                |

Amounts reported for governmental activities in the statement of net assets are different because:

|   |                     |
|---|---------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.                   | 7,739,024           |
| Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds. | (17,001,294)        |
| Accrued interest is not included as a liability in governmental funds   | (134,337)           |
| Net assets of governmental activities   | <u>\$ (553,901)</u> |

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

|  | General<br>Fund   | Debt<br>Service<br>Fund | Other Non-major<br>Governmental<br>Funds | Totals           |
|--|-------------------|-------------------------|--|------------------|
| <b>REVENUES:</b>                                 |                   |                         |  |                  |
| Local sources                                    | \$ 1,147,883      | \$ 757,288              | \$ 133,455                               | \$ 2,038,626     |
| Intermediate sources                             | 8,065             | -                       | -  | 8,065            |
| Unrestricted Political Subdivision               | -                 | -                       | 32,551                                   | 32,551           |
| State sources                                    | 4,864,670         | 43,595                  | 19,492                                   | 4,927,757        |
| Federal sources                                  | 590,273           | -                       | 178,650                                  | 768,923          |
| Total revenues                                   | 6,610,891         | 800,883                 | 364,148                                  | 7,775,922        |
| <b>EXPENDITURES:</b>                             |                   |                         |  |                  |
| Instruction                                      | 4,015,224         | -                       | -  | 4,015,224        |
| Supporting services                              | 2,324,463         | -                       | -  | 2,324,463        |
| Debt service                                     | -                 | 505,387                 | -  | 505,387          |
| School service                                   | -                 | -                       | 268,098                                  | 268,098          |
| Athletics  | -                 | -                       | 150,023                                  | 150,023          |
| Community services                               | -                 | -                       | 103,982                                  | 103,982          |
| Total expenditures                               | 6,339,687         | 505,387                 | 522,103                                  | 7,367,177        |
| Excess (deficiency) of revenue over expenditures | 271,204           | 295,496                 | (157,955)                                | 408,745          |
| <b>OTHER FINANCING SOURCES (USES):</b>           |                   |                         |  |                  |
| Operating transfers in (out)                     | (206,788)         | 53,731                  | 153,057                                  | -                |
| Incoming transfers - other schools               | 19,985            | -                       | 13,845                                   | 33,830           |
| Transfers to other districts                     | (2,600)           | -                       | (3,443)                                  | (6,043)          |
| Bond payments                                    | -                 | (315,127)               | -  | (315,127)        |
| State Aid adjustment                             | (49,263)          | -                       | -  | (49,263)         |
| Sale of fixed assets                             | 8,000             | -                       | -  | 8,000            |
| Refunding bond loan proceeds                     | -                 | 7,760,000               | -  | 7,760,000        |
| Total other financing sources (uses)             | (230,666)         | 7,498,604               | 163,459                                  | (7,431,397)      |
| <b>NET CHANGE IN FUND BALANCE</b>                | <b>40,538</b>     | <b>7,794,100</b>        | <b>5,504</b>                             | <b>7,840,142</b> |
| <b>FUND BALANCES - BEGINNING OF YEAR</b>         | <b>501,790</b>    | <b>407,651</b>          | <b>93,123</b>                            |                  |
| <b>FUND BALANCES - END OF YEAR</b>               | <b>\$ 542,328</b> | <b>\$ 8,201,751</b>     | <b>\$ 98,627</b>                         |                  |

Amounts reported for governmental activities in the statement of activities are different because:

|   |             |
|---|-------------|
| Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation | (220,672)   |
| Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid   | (12,583)    |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)   | (7,444,873) |
| Change in net assets of governmental activities   | \$ 162,014  |

The accompanying notes to the financial statements are an integral part of this statement.



**L'ANSE AREA SCHOOLS**  
**FIDUCIARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**June 30, 2006**

|                           | <u>Fiduciary<br/>Fund</u> |
|---------------------------|---------------------------|
| ASSETS                    |                           |
| Cash and investments      | \$ 91,335                 |
| Investments               | 225,176                   |
| Accounts receivable       | 500                       |
| TOTAL ASSETS              | <u>\$ 317,011</u>         |
| LIABILITIES               |                           |
| Due to student groups     | \$ 77,383                 |
| Scholarship funds         | 229,088                   |
| Due to governmental units | 10,540                    |
| TOTAL LIABILITIES         | <u>\$ 317,011</u>         |

The Accompanying notes to the financial statements are an integral part of this statement.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the L'Anse Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

**REPORTING ENTITY**

The L'Anse Area Schools (the "District") is governed by the L'Anse Area School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designated management, the ability to significantly influence operations, and the primary accountability for fiscal manners. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does not allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Debt Retirement Fund - The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service, Athletic Activities, and Community Service Activities.

Capital Projects Fund - The Capital Projects Fund is used to account for all revenues and expenditures associated with the School District's capital structures.

Fiduciary Funds:

Fiduciary Fund types are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has the following Fiduciary Funds: Trust and Agency, Scholarship Fund, and Tax Collection Fund.

Fiduciary funds are not included in the government-wide statements.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accrual Method

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION**

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts and the local county treasurer. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorizes the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period in accordance with the National Council on Governmental Accounting Interpretation No. 3, Revenue Recognition - Property Taxes. Property taxes are levied by the School District from the five townships of Bohemia, Covington, Duncan, Laird, and L'Anse on July 1 and become due September 14.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

| Fund  | Mills |
|---|-------|
| General fund - Non-homestead                    | 18.00 |
| Debt service fund - Homestead and non-homestead | 6.25  |

Receivables and Payables

Activity between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds."

Inventory

Inventory in the School District's General Fund consists of various school and office supplies totaling \$52,086.

Inventory in the School District's Special Revenue Fund consists of food, non-food items, and USDA Commodities totaling \$2,806. The School District utilizes the consumption method of recording inventories of food supplies in the School Service Fund. Under the consumption method, inventories are recorded as expenditures when they are used. Inventory is valued at cost.

Fixed Assets

Fixed assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the district wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

|                               |             |
|-------------------------------|-------------|
| Buildings and additions       | 20-50 years |
| Buses and other vehicles      | 5-10 years  |
| Furniture and other equipment | 5-10 years  |

Accrued Benefits

The liabilities for accrued benefits reported in the district wide statements in the amount of \$697,375, consisted of vacation, sick leave, and early retirement/sick leave payout balances. The School District, as part of the various employment contracts with its personnel, allows annual sick and vacation days. Each employment contract specifies an accumulation policy for unused sick and vacation days, as follows:

Vacation Days

Various employees of the School District are allowed to accumulate vacation days in the year when they are earned. Liability of the School District for the employees' unused vacation days at June 30, 2006 is \$18,883.

Sick Leave

The various employment contracts with School District personnel stipulate different methods of accumulating and paying for unused sick leave. In general, under all methods, employees are allowed to accumulate unused sick leave and receive a terminal leave payment for unused sick leave. In order to receive payment upon retirement, the employee must have worked in the School District for at least five years. Unused sick leave payable at June 30, 2006 is \$459,246.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Early Retirement Payout

On March 22, 2004, the District set into place a Voluntary Retirement Incentive Plan for teachers who meet the retirement rules and regulations for the State of Michigan, had been employed by the District for at least 12 consecutive years, and had been actively employed during the 2003-2004 school year. Early retirement payout at June 30, 2006 is \$219,245.

Long-term Obligations

In the district wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassification

Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

**NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
7. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

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**NOTE C - CASH AND INVESTMENTS**

As of June 30, 2006 the District had the following investments:

| Investment Type                     | Fair Value          | Weighted<br>Average<br>Maturity<br>(Years) | Rating | %              |
|-------------------------------------|---------------------|--|--------|----------------|
| MILAF - MICMS                       | \$ 88               | .0837                                      | AAA    | 0.00%          |
| MILAF - MIMAX                       | 619,394             | .0837                                      | AAA    | 6.94%          |
| MILAF + TERM A                      | 193,049             | .0837                                      | AAA    | 2.16%          |
| Trust U.S. Treasury Notes           | 5,694               | .3380                                      | AAA    | 0.06%          |
| Certificate of Deposit              | 5,000               | .3380                                      | AAA    | 0.06%          |
| Trust Preferred Stock               | 2,624               | .1260                                      | AAA    | 0.03%          |
| Trust Indices                       | 18,808              | .1260                                      | AAA    | 0.21%          |
| U.S. Treasury Notes                 | 8,076,678           | .6640                                      | AAA    | 90.53%         |
| Total fair value                    | <u>\$ 8,921,335</u> |  |        | <u>100.00%</u> |
| Portfolio weighted average maturity |                     | <u>0.307183</u>                            |        |                |

1 day maturity equals 0.0027, one year equals 1.00

**Interest Rate Risk** - In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit Risk** - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of Credit Risk** - The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial Credit Risk - Deposits** - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$434,570 of the District's bank balance of \$762,041 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**Custodial Credit Risk - Investments** - For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.



**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

**NOTE C - CASH AND INVESTMENTS (Continued)**

At year-end, the School District's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the School District is as follows:

|                                 | Governmental<br>Activities | Fiduciary<br>Funds | Total Primary<br>Government |
|---------------------------------|----------------------------|--------------------|-----------------------------|
| Unrestricted cash               | \$ 398,844                 | \$ 0               | \$ 398,844                  |
| Restricted cash                 | 115,205                    | 91,335             | 206,540                     |
| Total cash and cash equivalents | 514,049                    | 91,335             | 605,384                     |
| Investments                     | 619,481                    | 0                  | 619,481                     |
| Restricted investments          | 8,076,678                  | 225,176            | 8,301,854                   |
| Total investments               | 8,696,159                  | 225,176            | 8,921,335                   |
| Total deposits and investments  | \$ 9,210,208               | \$ 316,511         | \$ 9,526,719                |

**NOTE D - FIXED ASSETS**

Fixed Asset activity of the School District's governmental activities was as follows:

|                                  | Balance<br>06/30/05 | Additions    | Deletions | Balance<br>06/30/06 |
|----------------------------------|---------------------|--------------|-----------|---------------------|
| Land                             | \$ 138,642          | \$ 0         | \$ 1,500  | \$ 137,142          |
| Building and additions           | 8,048,503           | 0            | 0         | 8,048,503           |
| Improvements other than building | 620,921             | 6,500        | 0         | 627,421             |
| Equipment                        | 436,839             | 3,879        | 0         | 440,718             |
| Furniture                        | 50,880              | 0            | 0         | 50,880              |
| Software                         | 36,529              | 0            | 0         | 36,529              |
| Vehicles                         | 43,043              | 0            | 0         | 43,043              |
| School buses                     | 588,634             | 59,632       | 0         | 648,266             |
| Subtotal                         | 9,963,991           | 70,011       | 1,500     | 10,032,502          |
| Accumulated depreciation:        |                     |              |           |                     |
| Building and additions           | 1,127,684           | 161,415      | 0         | 1,289,099           |
| Improvements other than building | 214,770             | 31,407       | 0         | 246,177             |
| Equipment                        | 160,527             | 37,549       | 0         | 198,076             |
| Furniture                        | 13,281              | 2,871        | 0         | 16,152              |
| Software                         | 17,982              | 3,653        | 0         | 21,635              |
| Vehicles                         | 41,918              | 1,125        | 0         | 43,043              |
| School buses                     | 428,134             | 51,162       | 0         | 479,296             |
|                                  | 2,004,296           | 289,182      | 0         | 2,293,478           |
| Net capital assets               | \$ 7,959,695        | \$ (219,171) | \$ 1,500  | \$ 7,739,024        |

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

**NOTE D - FIXED ASSETS (Continued)**

Depreciation expense was charged to activities of the School District as follows:

|                               |    |                |
|-------------------------------|----|----------------|
| Governmental activities       |    |                |
| Athletic Fund                 | \$ | 5,458          |
| Food Service                  |    | 6,745          |
| General Fund:                 |    |                |
| Instructional                 |    | 211,163        |
| Supporting Services           |    | 3,748          |
| Operations                    |    | 9,506          |
| Transportation                |    | 52,562         |
| Total governmental activities | \$ | <u>289,182</u> |

**NOTE E - RECEIVABLES**

Receivables from governmental units at June 30, 2006 consist of the following:

|         | General<br>Fund   | School<br>Service | Athletic         | Community<br>Service | Total               |
|---------|-------------------|-------------------|------------------|----------------------|---------------------|
| State   | \$ 891,898        | \$ 0              | \$ 0             | \$ 21,053            | \$ 912,951          |
| Local   | 111               | 0                 | 13,845           | 0                    | 13,956              |
| Federal | 97,568            | 13,619            | 0                | 0                    | 111,187             |
|         | <u>\$ 989,577</u> | <u>\$ 13,619</u>  | <u>\$ 13,845</u> | <u>\$ 21,053</u>     | <u>\$ 1,038,094</u> |

**NOTE F - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2006 are as follows:

| Fund               | Inter-fund<br>Receivable | Fund               | Inter-fund<br>Payable |
|--------------------|--------------------------|--------------------|-----------------------|
| General            | \$ 27,285                | General            | \$ 8,295              |
| Debt Retirement    | 135                      | Debt Retirement    | 0                     |
| Food Service       | 4,910                    | Food Service       | 80                    |
| Athletic           | 3,250                    | Athletic           | 8,898                 |
| Community Services | 67                       | Community Services | 18,374                |
| TOTAL              | <u>\$ 35,647</u>         | TOTAL              | <u>\$ 35,647</u>      |

| Fund               | Transfer In       | Fund               | Transfer Out      |
|--------------------|-------------------|--------------------|-------------------|
| General            | \$ 18,580         | General            | \$ 225,368        |
| Debt Service       | 53,731            | Debt Service       | 0                 |
| Food Service       | 2,410             | Food Service       | 18,580            |
| Athletic           | 103,765           | Athletic           | 0                 |
| Community Services | 65,462            | Community Services | 0                 |
| TOTAL              | <u>\$ 243,948</u> | TOTAL              | <u>\$ 243,948</u> |

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

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**NOTE G - LONG TERM DEBT**

1998 Building and Site Bonds

On August 24, 1998, the School District issued \$9,855,000 of general obligation - unlimited tax bonds for the purpose of remodeling, refurbishing and re-equipping the Jr./Sr. High School and in part for improving the library; erecting, furnishing, and equipping an addition to the Jr./Sr. High School in part for music, cafeteria, gymnasium and middle school purposes; partially remodeling, refurbishing and re-equipping the C.J. Sullivan Elementary School; and acquiring and installing additional educational technology systems and developing and improving playgrounds and sites.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 4.50% to 4.85% per annum. Interest payments are payable semi-annually on May 1 and November 1 as indicated. The bonds are to be both term and serial.

These bonds are being refunded with the 2006 Advance Refunding.

| Payable<br>School Year | November 1<br>Interest | May 1<br>Interest | May 1<br>Principal  | Total               |
|------------------------|------------------------|-------------------|---------------------|---------------------|
| 2006-2007              | \$ 199,329             | \$ 199,329        | \$ 250,000          | \$ 648,658          |
| 2007-2008              | 193,704                | 193,704           | 8,240,000           | 8,627,408           |
| TOTAL                  | <u>\$ 393,033</u>      | <u>\$ 393,033</u> | <u>\$ 8,490,000</u> | <u>\$ 9,276,066</u> |

2006 Advance Refunding

On December 20, 2005 the District issued \$7,760,000 of general obligation unlimited tax refunding bonds to advance refund \$7,975,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to provide for the payment of the principal of, interest on and redemption premium on the 1998 Building and Site Bonds. The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on May 1, 2008.

This advance refunding was undertaken to reduce total debt service payments over the next 22 years by \$377,032. Sources and uses of funds to service the old debt and the new debt and complete the refunding were as follows:

Sources of Funds:

|                                |                     |
|--------------------------------|---------------------|
| Par amount of bonds            | \$ 7,760,000        |
| Net Original Issue Discount    | 38,950              |
| Debt Service Fund Contribution | <u>527,000</u>      |
| NET SOURCES OF FUNDS           | <u>\$ 8,325,950</u> |

Uses of Funds:

|                                      |                     |
|--------------------------------------|---------------------|
| Purchased price of Escrow Securities |                     |
| Purchase with Bond Proceeds          | \$ 7,681,675        |
| Purchased with Debt Service Funds    | <u>527,000</u>      |
| Total deposit to escrow fund         | 8,208,675           |
| Bond Insurance Premium               | 18,261              |
| Underwriter's Discount               | 38,800              |
| Issuance Costs                       | <u>60,214</u>       |
| TOTAL FUNDS USED                     | <u>\$ 8,325,950</u> |

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

**NOTE G - LONG TERM DEBT (Continued)**

The bond issue matures as indicated below with interest at varying rates of 3.5% to 4.25% per annum. Interest payments started on November 1, 2006, and are payable semi-annually on May 1, and November 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2017, are subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2016, at par plus accrued interest to the date fixed for redemption.

The Bonds due May 1, 2018 are term bonds subject to mandatory redemption in part, by lot, on the redemption dates and in the principal amounts set forth below and at the redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date.

|  | Redemption Dates       | Principal |  |  |
|--|------------------------|-----------|--|--|
|  | May 1, 2017            | \$400,000 |  |  |
|  | May 1, 2018 (maturity) | \$410,000 |  |  |

| Fiscal Year | November 1<br>Interest | May 1<br>Interest   | May 1<br>Principal  | Total                |
|-------------|------------------------|---------------------|---------------------|----------------------|
| 2006-2007   | \$ 207,058             | \$ 155,294          | \$ 0                | \$ 362,352           |
| 2007-2008   | 155,294                | 155,294             | 0                   | 310,588              |
| 2008-2009   | 155,294                | 155,294             | 295,000             | 605,588              |
| 2009-2010   | 150,131                | 150,131             | 305,000             | 605,262              |
| 2010-2011   | 144,794                | 144,794             | 320,000             | 609,588              |
| 2011-2012   | 138,394                | 138,394             | 330,000             | 606,788              |
| 2012-2013   | 131,794                | 131,794             | 345,000             | 608,588              |
| 2013-2018   | 549,769                | 549,769             | 1,930,000           | 3,029,538            |
| 2018-2023   | 347,369                | 347,369             | 2,110,000           | 2,804,738            |
| 2023-2028   | 133,608                | 133,608             | 2,125,000           | 2,392,216            |
|             | <u>\$ 2,113,505</u>    | <u>\$ 2,061,741</u> | <u>\$ 7,760,000</u> | <u>\$ 11,935,246</u> |

**Durant Bonds**

As part of the Durant settlement non plaintiff school districts entitled to receive amounts greater than \$75,000 were offered a bonding option. The School District participated in the bonding option and on November 24, 1998 issued \$131,554 of school improvement bonds for the purpose of adding two rooms to the C.J. Sullivan Elementary building.

The bond issue matures as indicated below with interest not to exceed 8% per annum. Interest payments began on May 15, 1999 and are payable annually thereafter on May 15 as indicated. The annual payments will be appropriated by the State of Michigan and will be the only revenue source for making the annual debt service payment on the bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.

The bonds are not subject to redemption prior to maturity and the School District will not issue any other bonds or obligations for the purpose of refunding these bonds. Even though the State of Michigan will be appropriating funds to pay the principal and interest, the bonds are the obligation of the School District, not the State.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

**NOTE G - LONG TERM DEBT (Continued)**

DURANT BOND ISSUE

| Payable<br>School Year | May 15<br>Interest | May 15<br>Principal | Total            |
|------------------------|--------------------|---------------------|------------------|
| 2006-2007              | \$ 2,567           | \$ 6,669            | \$ 9,236         |
| 2007-2008              | 2,250              | 6,989               | 9,239            |
| 2008-2009              | 1,917              | 7,321               | 9,238            |
| 2009-2010              | 1,568              | 7,670               | 9,238            |
| 2010-2011              | 1,203              | 8,035               | 9,238            |
| 2011-2012              | 821                | 8,417               | 9,238            |
| 2012-2013              | 420                | 8,817               | 9,237            |
| <b>TOTAL</b>           | <b>\$ 10,746</b>   | <b>\$ 53,918</b>    | <b>\$ 64,664</b> |

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2006:

|                      | Balance<br>June 30, 2005 | Increase            | Decrease          | Balance<br>June 30, 2006 | Current<br>Portion |
|----------------------|--------------------------|---------------------|-------------------|--------------------------|--------------------|
| 1991 Bonds           | \$ 50,000                | \$ 0                | \$ 50,000         | \$ 0                     | \$ 0               |
| 1998 Bonds           | 8,725,000                | 0                   | 235,000           | 8,490,000                | 250,000            |
| 2006 Refunding Bonds | 0                        | 7,760,000           | 0                 | 7,760,000                | 0                  |
| Durant Bond          | 84,045                   | 0                   | 30,127            | 53,918                   | 6,669              |
|                      | <u>8,859,045</u>         | <u>7,760,000</u>    | <u>315,127</u>    | <u>16,303,918</u>        | <u>\$ 256,669</u>  |
| Accrued Interest     | 72,907                   | 61,430              | 0                 | 134,337                  |                    |
| Accrued Benefits     | 746,223                  | 0                   | 48,848            | 697,375                  |                    |
| <b>TOTAL</b>         | <b>\$ 9,678,175</b>      | <b>\$ 7,821,430</b> | <b>\$ 363,975</b> | <b>\$ 17,135,630</b>     |                    |

As of June 30, 2006, the aggregate maturities of long-term debt for the next ten years and thereafter are as follows:

|           | Principal            | Interest            | Total                |
|-----------|----------------------|---------------------|----------------------|
| 2006-2007 | \$ 256,669           | \$ 763,577          | \$ 1,020,246         |
| 2007-2008 | 8,246,989            | 700,246             | 8,947,235            |
| 2008-2009 | 302,321              | 312,505             | 614,826              |
| 2009-2010 | 312,670              | 301,830             | 614,500              |
| 2010-2011 | 328,035              | 290,791             | 618,826              |
| 2011-2012 | 338,417              | 277,609             | 616,026              |
| 2012-2013 | 353,817              | 264,008             | 617,825              |
| 2013-2018 | 1,930,000            | 1,099,538           | 3,029,538            |
| 2018-2023 | 2,110,000            | 694,738             | 2,804,738            |
| 2023-2028 | 2,125,000            | 267,216             | 2,392,216            |
|           | <u>\$ 16,303,918</u> | <u>\$ 4,972,058</u> | <u>\$ 21,275,976</u> |

**NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or at age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 14.87% of covered compensation through September 30, 2005 and 16.34% of covered compensation to the Plan for the remainder of the year. The District contributions for the year ended June 30, 2006 was \$610,894 and equal the required contributions.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among MPERS and employers. The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2005 for the MPERS as a whole, the actuarial accrued liability was \$46.3 billion. The pension plan net assets were \$39 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 84.88%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2006 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPERS' September 30, 2005 annual report. This report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000

The State of Michigan is responsible for the payment of retirement benefits.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

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**NOTE I - RESERVE FUND BALANCE**

The Debt Service fund balance is reserved for retirement of debt. According to generally accepted accounting principles, reserved fund balances are reported separately in the fund balance section.

**NOTE J - FOUNDATION REVENUE**

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and September of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 18 mills for non-homestead property taxes. State revenue recognized during the foundation period (currently the fiscal year) is as follows:

|  |               |    |                   |
|--|---------------|----|-------------------|
| 2005-06 Foundation                           |               | \$ | 6,875.00          |
| Less Local Support:                          |               |    |                   |
| Non-Homestead Tax Value                      | 56,686,054    |    |                   |
| Multiplied by mills                          | <u>0.018</u>  |    |                   |
| Total Local Support                          | 1,020,349     |    |                   |
| Divided by General Education K-12 membership | <u>802.67</u> |    |                   |
| Calculated Local Support                     |               |    | <u>(1,271.19)</u> |
| 2005-06 Foundation Grant Allowance Per Pupil |               | \$ | <u>5,603.81</u>   |

**NOTE K - CONTINGENT LIABILITIES (RISK POOL)**

L'Anse Area Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. L'Anse Area Schools joined together with other school districts currently operating a common risk management and insurance program. L'Anse Area Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

L'Anse Area Schools continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2006, which can be obtained through the School District.

**REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION**



**L'ANSE AREA SCHOOLS**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**For the Year Ended June 30, 2006**

|  | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | <u>Variance</u>        |
|--|-------------------------|---------------------|---------------------|------------------------|
|  | <u>Original</u>         | <u>Final</u>        | <u>(GAAP Basis)</u> | <u>Final to Actual</u> |
| REVENUES:  |                         |                     |                     |                        |
| Local sources  | \$ 1,116,196            | \$ 1,135,375        | \$ 1,155,948        | \$ 20,573              |
| State sources  | 4,732,611               | 4,877,131           | 4,864,670           | (12,461)               |
| Federal sources                                      | 534,773                 | 594,278             | 590,273             | (4,005)                |
| TOTAL REVENUE  | <u>6,383,580</u>        | <u>6,606,784</u>    | <u>6,610,891</u>    | <u>4,107</u>           |
| EXPENDITURES:  |                         |                     |                     |                        |
| Instruction  | 3,978,023               | 4,104,866           | 4,015,224           | 89,642                 |
| Supporting services                                  | 2,314,590               | 2,416,130           | 2,324,463           | 91,667                 |
| TOTAL EXPENDITURES                                   | <u>6,292,613</u>        | <u>6,520,996</u>    | <u>6,339,687</u>    | <u>181,309</u>         |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | 90,967                  | 85,788              | 271,204             | (185,416)              |
| OTHER FINANCING SOURCES (USES):                      |                         |                     |                     |                        |
| Incoming transfers and other transactions            | 19,200                  | 27,200              | 27,985              | 785                    |
| Operating transfers in (out)                         | (190,927)               | (221,056)           | (206,788)           | 14,268                 |
| Outgoing transfers and other transactions            | <u>(12,000)</u>         | <u>(14,600)</u>     | <u>(51,863)</u>     | <u>(37,263)</u>        |
| Total other financing sources (uses)                 | (183,727)               | (208,456)           | (230,666)           | (22,210)               |
| NET CHANGE IN FUND BALANCE                           | <u>\$ (92,760)</u>      | <u>\$ (122,668)</u> | 40,538              | <u>\$ (207,626)</u>    |
| FUND BALANCE - BEGINNING OF YEAR                     |                         |                     | <u>501,790</u>      |                        |
| FUND BALANCE - END OF YEAR                           |                         |                     | <u>\$ 542,328</u>   |                        |

**SUPPLEMENTAL FINANCIAL INFORMATION**

**L'ANSE AREA SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

|                                | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2005</u> |
|--------------------------------|---------------|---------------|-----------------|-------------|
| REVENUES:                      |               |               |                 |             |
| Local sources:                 |               |               |                 |             |
| Taxes                          | \$ 1,026,059  | \$ 1,025,866  | \$ 193          | \$ 934,866  |
| Other local sources:           |               |               |                 |             |
| Investment revenue             | 25,000        | 32,520        | (7,520)         | 11,106      |
| Penalties and interest         | 4,000         | 6,789         | (2,789)         | 8,932       |
| Rentals                        | -             | 431           | (431)           | -           |
| Contributions                  | -             | 999           | (999)           | 14,215      |
| Other                          | 80,316        | 81,278        | (962)           | 85,483      |
| Total other local sources      | 109,316       | 122,017       | (12,701)        | 119,736     |
| Intermediate sources           | -             | 8,065         | (8,065)         | 35,910      |
| Total local sources            | 1,135,375     | 1,155,948     | (20,573)        | 1,090,512   |
| State sources:                 |               |               |                 |             |
| Unrestricted grant - State Aid | 4,585,137     | 4,588,176     | (3,039)         | 4,388,815   |
| Restricted grants:             |               |               |                 |             |
| Special Education              | 163,981       | 163,982       | (1)             | 152,486     |
| Bilingual                      | 13,000        | 12,774        | 226             | 13,675      |
| At-risk                        | 96,566        | 81,821        | 14,745          | 82,968      |
| Vocational education           | 5,292         | 4,762         | 530             | 7,249       |
| Durant settlement              | 13,155        | 13,155        | -               | 26,311      |
| Total restricted grants        | 291,994       | 276,494       | 15,500          | 282,689     |
| Total state sources            | 4,877,131     | 4,864,670     | 12,461          | 4,671,504   |
| Federal sources:               |               |               |                 |             |
| Title I                        | 118,372       | 100,784       | 17,588          | 102,609     |
| Title II                       | 46,034        | 45,552        | 482             | 68,351      |
| Title III                      | 47,701        | 38,495        | 9,206           | 25,429      |
| Title V                        | 8,493         | 8,095         | 398             | 6,111       |
| Title VII                      | 52,519        | 52,519        | -               | 50,086      |
| Impact Aid                     | 200,000       | 205,995       | (5,995)         | 256,822     |
| Ottawa National Forest         | 88,000        | 101,257       | (13,257)        | 98,084      |
| Other federal sources          | 33,159        | 37,576        | (4,417)         | 10,736      |
| Total federal sources          | 594,278       | 590,273       | 4,005           | 618,228     |
| TOTAL REVENUES                 | 6,606,784     | 6,610,891     | (12,172)        | 6,380,244   |
| EXPENDITURES:                  |               |               |                 |             |
| Instruction:                   |               |               |                 |             |
| Basic program:                 |               |               |                 |             |
| Elementary School              | 1,363,689     | 1,360,611     | 3,078           | 1,285,914   |
| Middle School                  | 888,484       | 868,162       | 20,322          | 901,823     |
| High School                    | 989,965       | 991,580       | (1,615)         | 900,682     |
| Total basic program            | 3,242,138     | 3,220,353     | 21,785          | 3,088,419   |

**L'ANSE AREA SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Continued)**  
**Year Ended June 30, 2006**

|   | <u>BUDGET</u>    | <u>ACTUAL</u>    | <u>VARIANCE</u> | <u>2005</u>      |
|---|------------------|------------------|-----------------|------------------|
| Added needs:                              |                  |                  |                 |                  |
| Special Education                         | 505,878          | 473,279          | 32,599          | 506,254          |
| Compensatory education                    | 254,011          | 219,831          | 34,180          | 261,389          |
| Vocational Education                      | 102,839          | 101,761          | 1,078           | 49,629           |
| Total added needs                         | <u>862,728</u>   | <u>794,871</u>   | <u>67,857</u>   | <u>817,272</u>   |
| Total instruction                         | <u>4,104,866</u> | <u>4,015,224</u> | <u>89,642</u>   | <u>3,905,691</u> |
| Supporting services:                      |                  |                  |                 |                  |
| Pupil:                                    |                  |                  |                 |                  |
| Attendance                                | 24,565           | 21,374           | 3,191           | 14,207           |
| Guidance                                  | 103,138          | 96,319           | 6,819           | 94,965           |
| Health                                    | 27,713           | 27,227           | 486             | 27,188           |
| Other pupil services                      | 56,469           | 59,534           | (3,065)         | 52,418           |
| Total pupil services                      | <u>211,885</u>   | <u>204,454</u>   | <u>7,431</u>    | <u>188,778</u>   |
| Instructional staff:                      |                  |                  |                 |                  |
| Improvement of instruction                | 13,277           | 10,174           | 3,103           | 13,140           |
| Library                                   | 25,888           | 21,880           | 4,008           | 31,465           |
| Supervision/direction instructional staff | 60,340           | 62,237           | (1,897)         | 60,735           |
| Total instructional staff                 | <u>99,505</u>    | <u>94,291</u>    | <u>5,214</u>    | <u>105,340</u>   |
| General administration:                   |                  |                  |                 |                  |
| Board of education                        | 42,806           | 33,586           | 9,220           | 43,237           |
| Executive administration                  | 194,996          | 189,244          | 5,752           | 184,945          |
| Total general administration              | <u>237,802</u>   | <u>222,830</u>   | <u>14,972</u>   | <u>228,182</u>   |
| School administration:                    |                  |                  |                 |                  |
| Elementary School                         | 165,462          | 159,546          | 5,916           | 151,899          |
| Middle School                             | 112,025          | 97,382           | 14,643          | 98,437           |
| High School                               | 157,005          | 163,281          | (6,276)         | 156,088          |
| Total school administration               | <u>434,492</u>   | <u>420,209</u>   | <u>14,283</u>   | <u>406,424</u>   |
| Community services                        | <u>818</u>       | <u>420</u>       | <u>398</u>      | <u>2,247</u>     |
| Other supporting services:                |                  |                  |                 |                  |
| Business-fiscal services                  | 143,852          | 137,558          | 6,294           | 137,147          |
| Operation & maintenance                   | 758,647          | 740,567          | 18,080          | 693,064          |
| Pupil transportation                      | 411,357          | 384,093          | 27,264          | 354,302          |
| Staff/Personnel services                  | 400              | 1,095            | (695)           | 5,260            |
| Technology                                | 117,372          | 118,946          | (1,574)         | 122,191          |
| Total other supporting services           | <u>1,431,628</u> | <u>1,382,259</u> | <u>49,369</u>   | <u>1,311,964</u> |
| Total supporting services                 | <u>2,416,130</u> | <u>2,324,463</u> | <u>91,667</u>   | <u>2,242,935</u> |

**L'ANSE AREA SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Continued)**  
**Year Ended June 30, 2006**

|  | <u>BUDGET</u>       | <u>ACTUAL</u>     | <u>VARIANCE</u>     | <u>2005</u>       |
|--|---------------------|-------------------|---------------------|-------------------|
| TOTAL EXPENDITURES   | <u>6,520,996</u>    | <u>6,339,687</u>  | <u>181,309</u>      | <u>6,148,626</u>  |
| EXCESS OF REVENUES OVER EXPENDITURES   | <u>85,788</u>       | <u>271,204</u>    | <u>(185,416)</u>    | <u>231,618</u>    |
| OTHER FINANCING SOURCES (USES):  |                     |                   |                     |                   |
| Incoming transfers - other schools   | 19,200              | 19,985            | (785)               | 45,909            |
| Operating transfer in (out)  | (221,056)           | (206,788)         | (14,268)            | (179,219)         |
| Sale of fixed assets   | 8,000               | 8,000             | -                   | -                 |
| State Aid adjustment   | -                   | (49,263)          | (49,263)            | (201,669)         |
| Other outgoing transfers   | <u>(14,600)</u>     | <u>(2,600)</u>    | <u>(12,000)</u>     | <u>(27,306)</u>   |
| TOTAL OTHER FINANCING SOURCES (USES)   | <u>(208,456)</u>    | <u>(230,666)</u>  | <u>22,210</u>       | <u>(362,285)</u>  |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER<br>FINANCING SOURCES OVER EXPENDITURES<br>AND OTHER FINANCING USES | <u>\$ (122,668)</u> | 40,538            | <u>\$ (163,206)</u> | (130,667)         |
| FUND BALANCE, BEGINNING OF YEAR  |                     | <u>501,790</u>    |                     | <u>632,457</u>    |
| FUND BALANCE, END OF YEAR  |                     | <u>\$ 542,328</u> |                     | <u>\$ 501,790</u> |

**L'ANSE AREA SCHOOLS**  
**DEBT SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

|   | <u>BUDGET</u>       | <u>ACTUAL</u>       | <u>VARIANCE</u>  | <u>2005</u>       |
|---|---------------------|---------------------|------------------|-------------------|
| REVENUES:   |                     |                     |                  |                   |
| Local sources:  |                     |                     |                  |                   |
| Current taxes   | \$ 645,000          | \$ 645,003          | \$ (3)           | \$ 612,254        |
| Interest income   | 16,000              | 71,972              | (55,972)         | 9,459             |
| Other taxes   | 38,000              | 37,571              | 429              | 38,369            |
| Unrestricted Political Subdivision  | -                   | -                   | -                | 21,029            |
| State sources   | 43,595              | 43,595              | -                | -                 |
| Penalties & interest on delinquent taxes  | -                   | 2,742               | (2,742)          | 3,709             |
| TOTAL REVENUES  | <u>742,595</u>      | <u>800,883</u>      | <u>(58,288)</u>  | <u>684,820</u>    |
| EXPENDITURES:   |                     |                     |                  |                   |
| Interest on bonds   | 415,526             | 426,101             | (10,575)         | 425,593           |
| Other expenses  | <u>83,371</u>       | <u>79,286</u>       | <u>4,085</u>     | <u>2,660</u>      |
| TOTAL EXPENDITURES  | <u>498,897</u>      | <u>505,387</u>      | <u>(6,490)</u>   | <u>428,253</u>    |
| EXCESS (DEFICIENCY) OF REVENUES OVER<br>EXPENDITURES  | 243,698             | 295,496             | (51,798)         | 256,567           |
| OTHER FINANCING SOURCES (USES):   |                     |                     |                  |                   |
| Redemption of bond principal  | (330,127)           | (315,127)           | (15,000)         | (265,000)         |
| Bond proceeds   | 7,760,000           | 7,760,000           | -                | -                 |
| Transfer from General Fund  | <u>53,800</u>       | <u>53,731</u>       | <u>69</u>        | <u>51,475</u>     |
| TOTAL OTHER FINANCING SOURCES   | <u>\$ 7,483,673</u> | <u>7,498,604</u>    | <u>\$ 14,931</u> | <u>213,525</u>    |
| EXCESS OF REVENUES AND OTHER FINANCING<br>SOURCES OVER EXPENDITURES<br>AND OTHER FINANCING USES |                     | <u>7,794,100</u>    |                  | <u>43,042</u>     |
| FUND BALANCE, BEGINNING OF YEAR   |                     | <u>407,651</u>      |                  | <u>364,609</u>    |
| FUND BALANCE, END OF YEAR   |                     | <u>\$ 8,201,751</u> |                  | <u>\$ 407,651</u> |

**L'ANSE AREA SCHOOLS**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEETS**  
**June 30, 2006**

|  | Capital<br>Projects | School Food<br>Service | Athletic         | Community<br>Services | Totals<br>Memorandum Only |                   |
|--|---------------------|------------------------|------------------|-----------------------|---------------------------|-------------------|
|  |                     |                        |                  |                       | 2006                      | 2005              |
| ASSETS AND OTHER DEBITS:                     |                     |                        |                  |                       |                           |                   |
| Cash   | \$ 16,551           | \$ 55,278              | \$ 126           | \$ 752                | \$ 72,707                 | \$ 89,950         |
| Receivables                                  | -                   | 7,615                  | 2,630            | -                     | 10,245                    | 8,449             |
| Inventory                                    | -                   | 2,806                  | -                | -                     | 2,806                     | 3,353             |
| Due from other funds                         | -                   | 4,910                  | 3,250            | 67                    | 8,227                     | -                 |
| Due from other governmental units            | -                   | 13,619                 | 13,845           | 21,053                | 48,517                    | 29,464            |
| <b>TOTAL ASSETS</b>                          | <b>\$ 16,551</b>    | <b>\$ 84,228</b>       | <b>\$ 19,851</b> | <b>\$ 21,872</b>      | <b>\$ 142,502</b>         | <b>\$ 131,216</b> |
| LIABILITIES:                                 |                     |                        |                  |                       |                           |                   |
| Accounts payable                             | \$ -                | \$ 152                 | \$ 10,889        | \$ 1,744              | \$ 12,785                 | \$ 7,720          |
| Accrued expenses                             | -                   | 1,920                  | 64               | 1,754                 | 3,738                     | 8,044             |
| Due to other funds                           | -                   | 80                     | 8,898            | 18,374                | 27,352                    | 22,329            |
| <b>TOTAL LIABILITIES</b>                     | <b>-</b>            | <b>2,152</b>           | <b>19,851</b>    | <b>21,872</b>         | <b>43,875</b>             | <b>38,093</b>     |
| FUND EQUITY:                                 |                     |                        |                  |                       |                           |                   |
| Fund balance - unreserved                    | 16,551              | 82,076                 | -                | -                     | 98,627                    | 93,123            |
| <b>TOTAL LIABILITIES AND<br/>FUND EQUITY</b> | <b>\$ 16,551</b>    | <b>\$ 84,228</b>       | <b>\$ 19,851</b> | <b>\$ 21,872</b>      | <b>\$ 142,502</b>         | <b>\$ 131,216</b> |

**L'ANSE AREA SCHOOLS**  
**CAPITAL PROJECTS FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

|  | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2005</u> |
|--|---------------|---------------|-----------------|-------------|
| REVENUES:  |               |               |                 |             |
| Local sources:                                       |               |               |                 |             |
| Interest   | \$ 400        | \$ 391        | \$ 9            | \$ 477      |
| EXPENDITURES:  |               |               |                 |             |
| Legal fees   | -             | -             | -               | 26,351      |
| TOTAL EXPENDITURES                                   | -             | -             | -               | 26,351      |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | \$ 400        | 391           | \$ 9            | (25,874)    |
| FUND BALANCE, BEGINNING OF YEAR                      |               | 16,160        |                 | 42,034      |
| FUND BALANCE, END OF YEAR                            |               | \$ 16,551     |                 | \$ 16,160   |



**L'ANSE AREA SCHOOLS**  
**FOOD SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

|  | <u>BUDGET</u>     | <u>ACTUAL</u>    | <u>VARIANCE</u>    | <u>2005</u>      |
|--|-------------------|------------------|--------------------|------------------|
| REVENUES:  |                   |                  |                    |                  |
| Local sources:   |                   |                  |                    |                  |
| Adult lunches  | \$ 10,100         | \$ 9,303         | \$ 797             | \$ 10,916        |
| A-La-Carte   | 4,900             | 4,413            | 487                | 5,128            |
| Student lunches  | 79,000            | 79,840           | (840)              | 81,393           |
| Interest   | 1,000             | 1,384            | (384)              | 1,085            |
| Miscellaneous  | -                 | 3,284            | (3,284)            | 924              |
| Total local sources  | <u>95,000</u>     | <u>98,224</u>    | <u>(3,224)</u>     | <u>99,446</u>    |
| State sources  | <u>12,507</u>     | <u>12,507</u>    | <u>-</u>           | <u>8,186</u>     |
| Federal sources:   |                   |                  |                    |                  |
| School lunch program   | 160,500           | 159,428          | 1,072              | 134,226          |
| USDA entitlements  | <u>18,000</u>     | <u>19,222</u>    | <u>(1,222)</u>     | <u>20,732</u>    |
| Total federal sources  | <u>178,500</u>    | <u>178,650</u>   | <u>(150)</u>       | <u>154,958</u>   |
| TOTAL REVENUES   | <u>286,007</u>    | <u>289,381</u>   | <u>(3,374)</u>     | <u>262,590</u>   |
| EXPENDITURES:  |                   |                  |                    |                  |
| Salaries   | 66,715            | 65,418           | 1,297              | 64,287           |
| Employee benefits  | 49,185            | 47,740           | 1,445              | 47,757           |
| Purchase services  | 3,500             | 1,134            | 2,366              | 1,213            |
| Supplies, materials, and other   | <u>160,000</u>    | <u>153,806</u>   | <u>6,194</u>       | <u>128,037</u>   |
| TOTAL EXPENDITURES   | <u>279,400</u>    | <u>268,098</u>   | <u>11,302</u>      | <u>241,294</u>   |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES                             | 6,607             | 21,283           | (14,676)           | 21,296           |
| OTHER FINANCING SOURCES (USES)   |                   |                  |                    |                  |
| Operating transfers in (out)   | <u>(16,330)</u>   | <u>(16,170)</u>  | <u>(160)</u>       | <u>(13,706)</u>  |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER<br>FINANCING SOURCES OVER EXPENDITURES | <u>\$ (9,723)</u> | 5,113            | <u>\$ (14,836)</u> | 7,590            |
| FUND BALANCE, BEGINNING OF YEAR  |                   | <u>76,963</u>    |                    | <u>69,373</u>    |
| FUND BALANCE, END OF YEAR  |                   | <u>\$ 82,076</u> |                    | <u>\$ 76,963</u> |

**L'ANSE AREA SCHOOLS**  
**ATHLETIC FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

|  | <u>BUDGET</u>  | <u>ACTUAL</u>  | <u>VARIANCE</u>     | <u>2005</u>    |
|--|----------------|----------------|---------------------|----------------|
| REVENUES:  |                |                |                     |                |
| Local sources:   |                |                |                     |                |
| Gate receipts  | \$ 20,000      | \$ 20,425      | \$ (425)            | \$ 28,615      |
| Interest income  | 400            | 227            | 173                 | 322            |
| State sources  | -              | 99             | (99)                | -              |
| Contributions  | 4,200          | 6,942          | (2,742)             | 5,536          |
| Other  | 1,800          | 4,720          | (2,920)             | 2,205          |
| TOTAL REVENUES   | <u>26,400</u>  | <u>32,413</u>  | <u>(6,013)</u>      | <u>36,678</u>  |
| EXPENDITURES:  |                |                |                     |                |
| Salaries   | 76,373         | 79,186         | (2,813)             | 79,082         |
| Employee benefits  | 19,047         | 20,248         | (1,201)             | 19,150         |
| Purchase services  | 23,000         | 20,154         | 2,846               | 23,402         |
| Supplies, materials, and other   | 28,811         | 30,435         | (1,624)             | 20,119         |
| TOTAL EXPENDITURES   | <u>147,231</u> | <u>150,023</u> | <u>(2,792)</u>      | <u>141,753</u> |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES                             | (120,831)      | (117,610)      | (3,221)             | (105,075)      |
| OTHER FINANCING SOURCES (USES)   |                |                |                     |                |
| Operating transfers in   | 111,331        | 103,765        | 7,566               | 89,362         |
| Incoming transfers - other schools   | 9,500          | 13,845         | (4,345)             | 15,715         |
|  | <u>120,831</u> | <u>117,610</u> | <u>3,221</u>        | <u>105,077</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER<br>FINANCING SOURCES OVER EXPENDITURES | <u>\$ -</u>    | <u>-</u>       | <u>\$ (117,610)</u> | <u>2</u>       |
| FUND BALANCE, BEGINNING OF YEAR  |                | <u>-</u>       |                     | <u>(2)</u>     |
| FUND BALANCE, END OF YEAR  |                | <u>\$ -</u>    |                     | <u>\$ -</u>    |

**L'ANSE AREA SCHOOLS**  
**COMMUNITY SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

|  | <u>BUDGET</u>  | <u>ACTUAL</u>  | <u>VARIANCE</u> | <u>2005</u>   |
|--|----------------|----------------|-----------------|---------------|
| REVENUES:  |                |                |                 |               |
| Local sources:   |                |                |                 |               |
| Contributions  | \$ 1,000       | \$ 1,227       | \$ (227)        | \$ 1,105      |
| Interest income  | 300            | 182            | 118             | 295           |
| Miscellaneous  | 1,000          | 1,117          | (117)           | 1,184         |
| Total local sources  | <u>2,300</u>   | <u>2,526</u>   | <u>(226)</u>    | <u>2,584</u>  |
| Unrestricted Political Subdivision   | <u>28,000</u>  | <u>32,551</u>  | <u>(4,551)</u>  | <u>39,788</u> |
| State sources  | <u>6,800</u>   | <u>6,886</u>   | <u>(86)</u>     | <u>8,731</u>  |
| TOTAL REVENUES   | <u>37,100</u>  | <u>41,963</u>  | <u>(4,863)</u>  | <u>51,103</u> |
| EXPENDITURES:  |                |                |                 |               |
| Salaries   | 58,279         | 55,694         | 2,585           | 54,683        |
| Employee benefits  | 35,391         | 38,083         | (2,692)         | 32,479        |
| Purchase services  | 2,355          | 3,236          | (881)           | 3,946         |
| Supplies, materials, and other   | 9,670          | 6,969          | 2,701           | 7,938         |
| TOTAL EXPENDITURES   | <u>105,695</u> | <u>103,982</u> | <u>1,713</u>    | <u>99,046</u> |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES                             | (68,595)       | (62,019)       | (6,576)         | (47,943)      |
| OTHER FINANCING SOURCES (USES)   |                |                |                 |               |
| Transfer to other entities   | (3,500)        | (3,443)        | (57)            | (4,145)       |
| Operating transfers in   | 72,095         | 65,462         | 6,633           | 52,088        |
| TOTAL OTHER FINANCING SOURCES (USES)   | <u>68,595</u>  | <u>62,019</u>  | <u>6,576</u>    | <u>47,943</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER<br>FINANCING SOURCES OVER EXPENDITURES | <u>\$ -</u>    | <u>-</u>       | <u>\$ -</u>     | <u>-</u>      |
| FUND BALANCE, BEGINNING OF YEAR  |                | <u>-</u>       |                 | <u>-</u>      |
| FUND BALANCE, END OF YEAR  |                | <u>\$ -</u>    |                 | <u>\$ -</u>   |

**L'ANSE AREA SCHOOLS**  
**STUDENT ACTIVITIES FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Year Ended June 30, 2006**

|                        | Balance<br>July 1, 2005 | Receipts   | Disbursements | Balance<br>June 30, 2006 |
|------------------------|-------------------------|------------|---------------|--------------------------|
| ASSETS:                |                         |            |               |                          |
| Cash                   | \$ 71,635               | \$ 148,751 | \$ 143,003    | \$ 77,383                |
| LIABILITIES:           |                         |            |               |                          |
| Due to Student Groups: |                         |            |               |                          |
| Elementary School      | \$ 22,159               | \$ 23,035  | \$ 25,172     | \$ 20,022                |
| High School            | 49,476                  | 125,716    | 117,831       | 57,361                   |
| TOTAL LIABILITIES      | \$ 71,635               | \$ 148,751 | \$143,003     | \$ 77,383                |

**L'ANSE AREA SCHOOLS**  
**SCHOLARSHIP TRUST FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Year Ended June 30, 2006**

|                           | Balance<br>July 1, 2005  | Receipts                 | Disbursements            | Balance<br>June 30, 2006 |
|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>ASSETS:</b>            |                          |                          |                          |                          |
| Cash                      | \$ 199,304               | \$ 1,657                 | \$ 193,549               | \$ 7,412                 |
| Investment                | 32,570                   | 193,925                  | 1,319                    | 225,176                  |
| Accounts Receivable       | 1,300                    | 0                        | 800                      | 500                      |
| Due from General Fund     | 500                      | 1,500                    | 2,000                    | 0                        |
| <b>TOTAL ASSETS</b>       | <b><u>\$ 233,674</u></b> | <b><u>\$ 197,082</u></b> | <b><u>\$ 197,668</u></b> | <b><u>\$ 233,088</u></b> |
| <b>LIABILITIES:</b>       |                          |                          |                          |                          |
| Due to General Fund       | \$ 4,600                 | \$ 1,500                 | \$ 2,100                 | \$ 4,000                 |
| Due to Scholarship Funds: |                          |                          |                          |                          |
| Berg Memorial             | 3,313                    | 5                        | 0                        | 3,318                    |
| Board of Education        | 9,606                    | 12                       | 736                      | 8,882                    |
| Dubuque                   | 337                      | 0                        | 0                        | 337                      |
| Groleau                   | 0                        | 500                      | 500                      | 0                        |
| Guay                      | 23,952                   | 31                       | 0                        | 23,983                   |
| Gudegast                  | 3                        | 0                        | 0                        | 3                        |
| Guy                       | 3,686                    | 56                       | 0                        | 3,742                    |
| Higgins                   | 40,155                   | 1,053                    | 500                      | 40,708                   |
| Juntunen                  | 16,247                   | 21                       | 0                        | 16,268                   |
| McKindles Award           | 922                      | 0                        | 100                      | 822                      |
| Putula                    | 6                        | 487                      | 0                        | 493                      |
| Roth                      | 32,572                   | 557                      | 1,000                    | 32,129                   |
| St. John                  | 98,267                   | 129                      | 0                        | 98,396                   |
| Turpeinen                 | 8                        | 299                      | 300                      | 7                        |
| <b>TOTAL LIABILITIES</b>  | <b><u>\$ 233,674</u></b> | <b><u>\$ 4,650</u></b>   | <b><u>\$ 5,236</u></b>   | <b><u>\$ 233,088</u></b> |

**L'ANSE AREA SCHOOLS**  
**TAX COLLECTION FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Year Ended June 30, 2006**

|                                 | <u>Balance</u><br><u>July 1, 2005</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Balance</u><br><u>June 30, 2006</u> |
|---------------------------------|---------------------------------------|-----------------|----------------------|--|
| ASSETS:                         |                                       |                 |                      |  |
| Cash                            | \$ 4,007                              | \$ 2,752,027    | \$ 2,749,494         | \$ 6,540                               |
| LIABILITIES:                    |                                       |                 |                      |  |
| Due to other governmental units | \$ 4,007                              | \$ 2,752,027    | \$ 2,749,494         | \$ 6,540                               |

**L'ANSE AREA SCHOOLS  
FEDERAL AWARDS  
June 30, 2006**



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Education  
L'Anse Area Schools  
L'Anse, Michigan

We have audited the financial statements of the L'Anse Area Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the L'Anse Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the L'Anse Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

October 6, 2006





**Bruce A Rukkila, CPA, PC**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
L'Anse Area Schools  
L'Anse, Michigan

**Compliance**

We have audited the compliance of the L'Anse Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The L'Anse Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the L'Anse Area Schools' management. Our responsibility is to express an opinion on the L'Anse Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether a noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the L'Anse Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the L'Anse Area Schools' compliance with those requirements.

In our opinion, the L'Anse Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of the L'Anse Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the L'Anse Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

October 6, 2006

**L'ANSE AREA SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2006**

| Federal Grantor<br>Pass Through Grantor<br>Program Title | Federal<br>CFDA<br>Number | Approved<br>Grant Award<br>Amount | Accrued<br>(Deferred)<br>revenue<br>July 1, 2005 | Current Year<br>Cash Receipts | Current Year<br>Expenditures | Accrued<br>(Deferred)<br>Revenue<br>June 30, 2006 |
|--|---------------------------|-----------------------------------|--|-------------------------------|------------------------------|---|
| <i>U.S. Department of Education:</i>                     |                           |                                   |  |                               |                              |   |
| <b>Direct</b>  |                           |                                   |  |                               |                              |   |
| Indian Education - E-T003E000999                         | 84.003E                   | \$ 483,500                        | \$ (1,000)                                       | \$ 0                          | \$ 0                         | \$ (1,000)  |
| Title VII - S060A040658                                  | 84.060A                   | 52,519                            | 0  | 52,519                        | 52,519                       | 0   |
| Small Rural Achievement Grant - REAP                     | 84.358A                   | 8,180                             | 0  | 8,180                         | 8,180                        | 0   |
| P.L. 874 - Impact Aid S041Z-2443                         | 84.041                    | 205,995                           | 0  | 205,995                       | 205,995                      | 0   |
|  |                           | 750,194                           | (1,000)  | 266,694                       | 266,694                      | (1,000)   |
| <b>Total Direct</b>                                      |                           |                                   |  |                               |                              |   |
| Passed through M.D.E.                                    |                           |                                   |  |                               |                              |   |
| Title I Part A Grant 061530-0506                         | 84.010                    | 108,713                           | 0  | 82,110                        | 91,125                       | 9,015   |
| Title I Part A Grant 051530-0506                         | 84.010                    | 9,659                             | 0  | 9,659                         | 9,659                        | 0   |
| Title I Part A Grant 051530-0405                         | 84.010                    | 96,398                            | 723  | 723                           | 0                            | 0   |
|  |                           | 214,770                           | 723  | 92,492                        | 100,784                      | 9,015   |
| Title IIA Improving Teacher Quality 030520-0203          | 84.367                    | 4,423                             | 0  | 4,423                         | 4,423                        | 0   |
| Title IIA Improving Teacher Quality 040520-0304          | 84.367                    | 39,583                            | 0  | 17,725                        | 39,583                       | 21,858  |
| Title IIA Improving Teacher Quality 050520-0405          | 84.367                    | 35,305                            | 3,369  | 3,369                         | 0                            | 0   |
|  |                           | 79,311                            | 3,369  | 25,517                        | 44,006                       | 21,858  |
| Title IID 64290-0506                                     | 84.367                    | 1,546                             | 0  | 1,546                         | 1,546                        | 0   |
| Title III English Language 050580-0506                   | 84.365                    | 9,519                             | 0  | 9,519                         | 9,519                        | 0   |
| Title III English Language 060580-0506                   | 84.365                    | 38,182                            | 0  | 15,066                        | 28,976                       | 13,909  |
| Title III English Language 050580-0405                   | 84.365                    | 15,549                            | 23   | 23                            | 0                            | 0   |
|  |                           | 63,250                            | 23   | 24,608                        | 38,495                       | 13,909  |
| Title V LEA Allocation 050250-0405                       | 84.298                    | 52                                | 52   | 52                            | 0                            | 0   |
| Title V LEA Allocation 050580-0506                       | 84.298                    | 5,008                             | 0  | 5,008                         | 5,008                        | 0   |
| Title V LEA Allocation 060580-0506                       | 84.298                    | 3,485                             | 0  | 3,087                         | 3,087                        | 0   |
|  |                           | 8,545                             | 52   | 8,147                         | 8,095                        | 0   |
| Total Passed through M.D.E.                              |                           | 367,422                           | 4,167  | 152,310                       | 192,926                      | 44,782  |
| Total U.S. Dept of Education                             |                           | 1,117,616                         | 3,167  | 419,004                       | 459,620                      | 43,782  |

|   |                     |                 |                   |                   |                  |
|---|---------------------|-----------------|-------------------|-------------------|------------------|
| <i>U.S. Department of Agriculture:</i>          |                     |                 |                   |                   |                  |
| Passed Through Michigan Dept of Education       |                     |                 |                   |                   |                  |
| National School Lunch                           |                     |                 |                   |                   |                  |
| 10.555  | 20,553              | 0               | 20,553            | 20,553            | 0                |
| 10.555  | 86,011              | 0               | 86,011            | 86,011            | 0                |
|   | <u>106,564</u>      | <u>0</u>        | <u>106,564</u>    | <u>106,564</u>    | <u>0</u>         |
| Breakfast                                       |                     |                 |                   |                   |                  |
| 10.533  | 26,014              | 0               | 26,014            | 26,014            | 0                |
| 10.582  | 26,850              | 0               | 15,352            | 26,850            | 11,498           |
|   | <u>159,428</u>      | <u>0</u>        | <u>147,930</u>    | <u>159,428</u>    | <u>11,498</u>    |
| Food Distributions- Entitlement Commodities     |                     |                 |                   |                   |                  |
| 10.550  | 17,546              | 0               | 17,546            | 17,546            | 0                |
| 10.550  | 1,676               | 0               | 1,676             | 1,676             | 0                |
|   | <u>19,222</u>       | <u>0</u>        | <u>19,222</u>     | <u>19,222</u>     | <u>0</u>         |
|   | <u>178,650</u>      | <u>0</u>        | <u>167,152</u>    | <u>178,650</u>    | <u>11,498</u>    |
| Passed Through Houghton County                  |                     |                 |                   |                   |                  |
| 10.670  | <u>101,257</u>      | <u>0</u>        | <u>101,257</u>    | <u>101,257</u>    | <u>0</u>         |
| Ottawa National Forest                          |                     |                 |                   |                   |                  |
|   | <u>279,907</u>      | <u>0</u>        | <u>268,409</u>    | <u>279,907</u>    | <u>11,498</u>    |
| Total U.S. Dept of Agriculture                  |                     |                 |                   |                   |                  |
| <i>U.S. Department of Homeland Security:</i>    |                     |                 |                   |                   |                  |
| Passed Through Michigan State Police            |                     |                 |                   |                   |                  |
| 97.004  | <u>3,862</u>        | <u>0</u>        | <u>3,862</u>      | <u>3,862</u>      | <u>0</u>         |
| Homeland Security Grant Part II                 |                     |                 |                   |                   |                  |
| <i>U.S. Department of Labor:</i>                |                     |                 |                   |                   |                  |
| Passed Through Western U.P. Manpower Consortium |                     |                 |                   |                   |                  |
| 17.250  | <u>25,534</u>       | <u>0</u>        | <u>25,534</u>     | <u>25,534</u>     | <u>0</u>         |
| Workforce Investment Act (WIA)                  |                     |                 |                   |                   |                  |
| TOTALS  | <u>\$ 1,426,919</u> | <u>\$ 3,167</u> | <u>\$ 716,809</u> | <u>\$ 768,923</u> | <u>\$ 55,280</u> |

The accompanying notes to financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS****NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - June 30, 2006**

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**NOTE A - OVERSIGHT AGENCY**

The U. S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the school's expenditures of federal awards.

**NOTE B - BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

**NOTE C - FINAL COST REPORT - FORM DS4044**

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year grants were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

**NOTE D - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION**

A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards to federal revenue recognized on page 16 of these financial statements is \$768,923. The amounts reported as current payments on the R7120, Grant Section Auditors Report, reconcile with the Schedule of Expenditures of Federal Awards as follows:

|  |                   |
|--|-------------------|
| Total current payments per R7120           | \$ 298,695        |
| Less: Prior year receivables               | (4,167)           |
| Plus: USDA Commodities                     | 19,222            |
| Title I receivable                         | 9,015             |
| Title IIA receivable                       | 21,858            |
| Title IID receivable                       | 1,546             |
| Title III receivable                       | 13,909            |
| Fresh Fruit & Vegetable receivable         | 11,498            |
| Direct Federal Awards                      | 266,694           |
| Homeland Security Grant                    | 3,862             |
| Manpower (WIA)                             | 25,534            |
| Ottawa National Forest                     | 101,257           |
| Schedule of Expenditures of Federal Awards | <u>\$ 768,923</u> |

**L'ANSE AREA SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the year ended June 30, 2006**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133? No

Identification of major programs:

CFDA Number  
84.041

Name of Federal Program or Cluster  
Public Law 874 - Impact Aid

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.



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### LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education  
L'Anse Area Schools  
L'Anse, Michigan 49946

In connection with our audit of the financial statements of the L'Anse Area Schools, as of and for the year ended June 30, 2006, the following concerns regarding the accounting records, procedures, and internal control structure came to our attention.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures and are not intended to reflect on the honesty or integrity of any individual.

#### Public Act 738 - Electronic Transactions of Public Funds

The District should be aware of Act 738 – "Electronic Transactions of Public Funds". This Act affects electronic payments and transfers by local units, including school districts. The Act requires the District to adopt a resolution to authorize use of automated clearinghouse (ACH) arrangements. We noted that the District has adopted an ACH policy. Annually the board needs to designate an Electronic Transaction Officer. The Electronic Transaction Officer will be responsible for the ACH agreements that include payment approval, accounting, reporting, and compliance with the ACH policy.

#### Public Act 621 - Budget Over Expenditures

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the financial statements and the accompanying information. There were no material overages in the individual budgeted funds.

We would like to thank the administration staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

October 6, 2006